

TESTIMONY

OF

JOSEPH M. LYNCH

IN SUPPORT OF THE STIPULATION ON CERTAIN MATTERS

DATED MAY 3, 2010.

THIS TESTIMONY IS FILED

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2009-489-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION WITH SOUTH CAROLINA ELECTRIC & GAS COMPANY (“SCE&G” OR “COMPANY”).

A. My name is Joseph M. Lynch and my business address is 220 Operation Way, Cayce, South Carolina. My current position with the Company is Manager of Resource Planning.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes.

1 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

2 A. The purpose of this testimony is to provide an overview of the Company's
3 proposed Weather Normalization Adjustment ("WNA") process. In providing this
4 overview, I draw attention to and support the Stipulation On Certain Matters dated
5 May 3, 2010 "(Stipulation)" entered by the Company and the South Carolina
6 Office of Regulatory Staff ("ORS") and previously filed with the Public Service
7 Commission of South Carolina ("Commission") in this docket.

8
9 **Q. WHAT IS THE PURPOSE OF THE PROPOSED WNA PROCESS?**

10 A. The purpose of the WNA process is to mitigate the effects of abnormal
11 weather on the margin component of customers' bills.

12
13 **Q. IS THE PILOT WNA A COMPONENT OF THE STIPULATION AND**
14 **OFFERED CONTINGENT UPON APPROVAL OF ALL OF THE TERMS**
15 **OF THE STIPULATION?**

16 A. Yes. The Stipulation entered by ORS and the Company outlines how the
17 WNA is to operate and makes clear that the WNA is one component of the terms
18 of the Stipulation. The Stipulation is grounded upon the agreement that all
19 components of the Stipulation are interconnected and contingent upon approval of
20 the other components. ORS and the Company jointly recommend the adoption of
21 the Stipulation and its terms, namely, a stipulated return on equity of 10.7 percent
22 in recognition of the Company's current cost of equity capital, a one-time credit of

1 \$25 million reflecting the approximate amount that the proposed WNA program
2 would have saved customers in the first quarter of 2010, and the WNA program
3 described in the Stipulation and explained in this testimony.

4
5 **Q. DOES THE WNA PROCESS ELIMINATE ALL THE EFFECTS OF**
6 **WEATHER?**

7 A. No, the WNA process adjusts only the margin component. The fuel
8 component, which can represent more than 30% of a customer's bill, will not be
9 affected.

10
11 **Q. WHICH CUSTOMERS WILL BE SUBJECT TO THE WNA**
12 **ADJUSTMENT?**

13 A. Residential and commercial customers served under rate schedules 1, 6, 8
14 and 9 will be affected. Typically, more than 90% of the abnormal weather effect
15 on margin is seen in these four rates, and almost 95% of the customers on the
16 Company's system are served under these four rate schedules. The WNA process
17 will not apply to industrial customers because their load is not very weather
18 sensitive, and it will not apply to customers on time of use rates or rates with
19 demand charges because of the difficulty in isolating the weather effect on each
20 rate component.

21
22 **Q. WHAT DO YOU MEAN BY NORMAL WEATHER?**

1 A. Normal weather is defined as an average of historical weather. Consistent
2 with the terms of the Stipulation, SCE&G will use a moving 15-year average of
3 historical weather to calculate normal.

4
5 **Q. DOES THE COMPANY ANALYZE THE IMPACT OF WEATHER ON ITS**
6 **MARGIN REVENUE? IF SO, WHAT DOES THE ANALYSIS SHOW?**

7 A. Yes, the Company does analyze the impact of weather on its margin
8 revenue. The analysis shows that in the 183 months between January 1995 and
9 March 2010, the weather in 83 of those months had a positive impact on margin
10 revenue, i.e., the Company collected above normal amounts. If we accumulate the
11 above and below margin impacts since January 1995, the accumulation as of
12 March 2010 would be \$7.7 million, indicating an above normal level. However,
13 as of February 2010, it would be a negative \$2.6 million (-\$2.6) impact indicating
14 a below normal level and a savings of that amount by customers. During these 15
15 years since 1995, the accumulation crossed the zero point, going from positive to
16 negative or negative to positive, 19 times.

17
18 **Q. EXPLAIN THE MECHANICS OF HOW THE WNA PROCESS WOULD**
19 **WORK.**

20 A. The WNA process will calculate a rate adjustment for each residential and
21 commercial class of customer under rate schedules 1, 6, 8 and 9 for each revenue
22 month and meter reading cycle. A meter reading cycle is defined by a meter

1 reading date and the number of days in the cycle, i.e., the number of days since the
2 meter reading date of the prior month. There are 20 cycles each month. After the
3 meters are read for a particular cycle, the Company will accumulate the weather
4 for that cycle and calculate the deviation of this weather from normal. Then using
5 weather adjustment parameters developed by the Company through regression
6 analysis for each rate and class, a rate adjustment will be determined by applying a
7 weather percentage factor to the margin component of the energy rate contained in
8 the second block of each rate schedule.

9
10 **Q. WHY DOES THE RATE CHANGE BY CYCLE AND CLASS?**

11 A. The Company makes the adjustment by cycle and by class within rate
12 schedules to make the estimate of weather impact more accurate. Clearly since
13 weather changes daily, each meter reading cycle will contain different weather and
14 deviate more or less from normal. The WNA process adjusts by class because
15 single family homes, mobile homes, apartments and commercial customers all
16 react to weather differently. By taking these differences into account, the WNA
17 process will be more accurate.

18
19 **Q. DOES THE PROCESS ESTIMATE THE WEATHER IMPACT ON EACH**
20 **CUSTOMER'S CONSUMPTION AND BILL?**

1 A. No, the WNA process is actually adjusting the rate schedule for weather.
2 Every customer on a particular meter reading cycle and rate and class will receive
3 the same increase or decrease to the rate due to weather.
4

5 **Q. IS THE PILOT WNA AS PROPOSED IN THE STIPULATION AND**
6 **EXPLAINED IN THIS TESTIMONY BENEFICIAL TO CUSTOMERS?**

7 A. Yes, it is beneficial to customers. The pilot WNA benefits customers by
8 smoothing their bills during periods of extremely high summer and low winter
9 temperatures. It allows customers to more predictably estimate their consumption
10 and resulting bills, mitigating the opportunity to receive abnormally higher bills
11 during periods of extreme heat or cold, as we observed in the most recent winter.
12 Thus, we join with ORS in recommending approval of the pilot WNA, contingent
13 upon approval of all other terms of the Stipulation.
14

15 **Q. DOES SCE&G RECOMMEND APPROVAL OF ALL OF THE TERMS**
16 **AND CONDITIONS OF THE STIPULATION?**

17 A. Yes, SCE&G supports approval of the Stipulation in full, noting that the
18 components of the Stipulation are interdependent and all terms are advanced for
19 approval as being just and reasonable in this case.
20

21 **Q. DOES THIS CONCLUDE THIS TESTIMONY?**

22 A. Yes, it does.